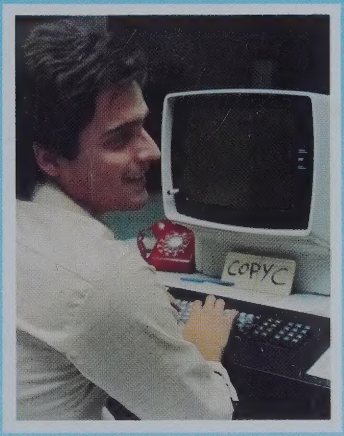
# STEINBERG Inc.
Annual Report
1979



Douglas R. Long
Manager of Communications

Public Relations
Steinberg Inc.

Alexis Nihon Plaza
1500 Atwater Ave.
Montreal, Canada H3Z 1Y3
(514) 931-9131

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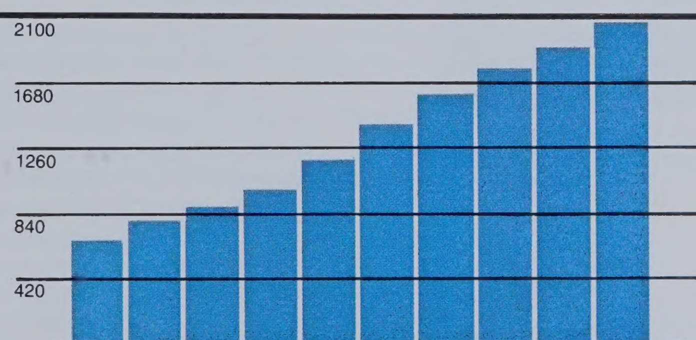
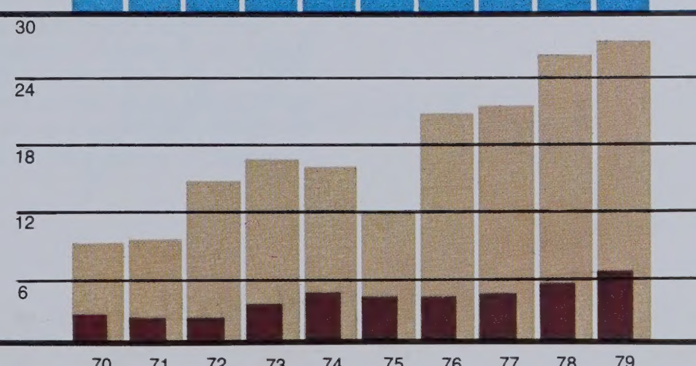
# Financial Highlights

| | 1979 $ | 1978 $ | Change % |
|---|---|---|---|
| **Sales and Operating Revenue** | **2,082,710,000** | 1,917,529,000 | **8.6** |
| retail food | **1,763,399,000** | 1,620,493,000 | **8.8** |
| general merchandise | **236,515,000** | 229,020,000 | **3.3** |
| manufacturing (external sales) | **32,755,000** | 28,333,000 | **15.6** |
| restaurants | **32,454,000** | 25,355,000 | **28.0** |
| real estate operations | **17,587,000** | 14,328,000 | **22.7** |
| **Net Earnings** | **27,191,000** | 25,730,000 | **5.7** |
| retail and manufacturing operations | **20,749,000** | 21,485,000 | **(3.4)** |
| real estate operations | **6,442,000** | 4,245,000 | **51.8** |
| per dollar of sales and operating revenue | **1.31¢** | 1.34¢ | **(2.2)** |
| **Cash Flow from Operations** | **57,443,000** | 51,915,000 | **10.6** |
| **Working Capital** | **105,034,000** | 81,968,000 | **28.1** |
| **Shareholders' Equity** (common and Class "A") | **213,476,000** | 193,013,000 | **10.6** |
| **Per Common and Class "A" Share** | | | |
| net earnings | **3.83** | 3.65 | **4.9** |
| dividends | **.86** | .72 | **19.4** |
| book value | **30.18** | 27.57 | **9.5** |
| return on average equity | **13.26%** | 13.97% | **(5.1)** |

**Sales & Operating Revenue**
(millions)

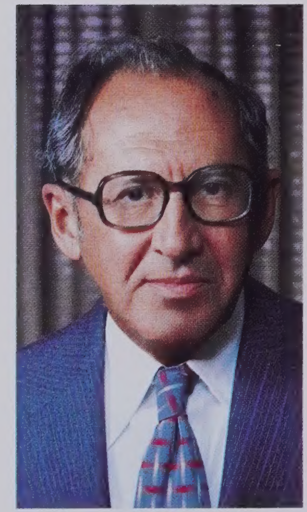



**Net Earnings & Dividends**
(millions)



# Report to the Shareholders

**Melvyn A. Dobrin,** Laszio
Chairman of the Board



**Jack Levine,** Laszio
President

We welcome the opportunity to report to the shareholders on the significant happenings of 1979 and the results achieved by the various components of Steinberg Inc. We are pleased also to report on steps being taken to ensure the continued health of the Company as well as its ability to adapt to change and to take advantage of new opportunities.

A number of factors had a restraining effect on both sales and profitability during the year. Among these were an illegal warehouse strike, numerous inflationary increases in operating costs, intensified competition in certain areas and an actual reduction in the per capita consumption of some food items.

Despite these negative influences, Steinberg Inc. and its subsidiaries registered sales in excess of $2 billion and earned over $27 million, both figures establishing new records for the Company. Earnings per share rose to a new high of $3.83.

It is fortunate that while unusual conditions made it impossible for Quebec Division and Steinberg Foods to attain their respective objectives, their shortfall in sales and profitability was offset by the improved results of several other divisions, most notably Ontario Division and Ivanhoe Inc. The Directors believe that the overall results achieved in fiscal 1979 vindicate the policy which the Company has followed over the years of diversifying both geographically and into new areas of business activity.

In fact, during 1979 the Executive Committee has devoted a great deal of time to the study of the Company's existing operations and to the examination of a variety of diversification possibilities with a view to recommending to the Board courses of action which would strengthen the Company's position as a major diversified enterprise.

These studies resulted in capital expenditures during the year of over $51 million, principally on new store additions and major renovation of existing facilities. We expect that heavy capital expenditures will be required over the next several years in order to maintain the Company's share of market.

The disposal of unprofitable or marginally profitable operations also came under scrutiny. As a result, it was decided to accept the offer made by Consumers Distributing Company Limited to purchase the bulk of the assets of Cardinal Distributors Limited. A similar decision resulted, after the year end, in an agreement to sell our 50% interest in Pharmaprix Limited to Koffler Stores Limited, the holder of the other shares. We believe that the funds resulting from these dispositions will now be more usefully employed.

Investigation of expansion opportunities in several different markets has convinced us that it is sometimes more advantageous to acquire an established, well-run operation than to follow the slower and ever more costly process of store-by-store development. Acting on this premise, our restaurant subsidiary acquired Salisbury House of Canada Ltd., a successful, Winnipeg based restaurant chain.

The Directors decided also that steps should be taken to strengthen Steinberg's balance sheet so as to place the Company in the best possible position to make a major acquisition.

To this end, they approved an increase in the authorized capital of the Company. Four million Second Preferred Shares of the par value of $25 each were created. The Company subsequently issued $65 million of these shares and also retired a substantial amount of long term debt. This has increased the Company's equity base and improved its debt-equity ratio.

Although no major acquisition has yet been submitted for the Board's consideration, a great deal of preliminary work has been done, particularly in the United States where more attractive opportunities appear to be available. We are investigating possibilities in the areas of food retailing, food processing and real estate development. Precise timing cannot be predicted but we hope to be well advanced in our planning for a specific acquisition by the end of the current fiscal year.

Steinberg's ability to progress depends in large measure on the quality of the decisions of its Board. Mr. Donald G. Campbell, Chairman & Chief Executive Officer of Maclean-Hunter Limited, and Mr. J. V. Raymond Cyr, Executive Vice-President, Administration, of Bell Canada, were elected to the Board at the Annual Meeting. The business experience of these new directors has contributed significantly to the strength of the Board and to its deliberations. The retirement of Mr. Campbell W. Leach from the Board after many years of valuable service was accepted with regret.

Obviously the Company will only realize its objectives of sustained, healthy growth if it is able to recruit, develop and retain an adequate corps of talented management personnel and a staff of employees who understand that the realization of Company objectives is important to the attainment of their own personal goals.

We are devoting considerable time to the assessment of our management personnel and their developmental needs. This has involved extensive use of assessment centres and the voluntary enrolment of a large number of managers in special training courses and seminars. Concurrently, we are endeavouring to improve general working conditions and morale through a variety of quality of working life programs. It is our hope that these programs will gain increasing support from our employees and the unions that represent them.

During the year the Company negotiated agreements with various unions whereby the cost of pension and other programs affecting the majority of Steinberg employees will be fully paid by the Company. It is significant that although the Company's earnings for 1979 increased by only 5.7%, employee salaries and benefits rose by 10.7% to over $310 million. This figure contrasts with the total dividend payout to shareholders of slightly over $6.2 million.

Relations with unions are a matter of continuing concern. There is no magic solution to the problems inherent in employer-union relations. Both parties must demonstrate a willingness to engage in frank discussion and a determination to avoid creating situations which encourage confrontation. We are committed to this philosophy and a degree of progress is evident; unfortunately, some union representatives appear determined to perpetuate the worst features of the adversarial system.

The attitudes and actions of government are of particular concern to us. At the federal level we face a growing number of regulations which, at small benefit to the consumer, necessitate costly changes in our operations. In Quebec it is regrettable that governmental hostility toward businessmen is sometimes expressed publicly; of more importance is the fact that legitimate business viewpoints, constructive suggestions for improvement of legislation and objections to government policy are seldom given serious consideration. Rejection of our recommendations regarding bilingual in-store signs and of the virtually unanimous recommendations of the business community concerning Quebec's uncompetitive rates of personal taxation are cases in point.

This is most disquieting since a veritable spate of laws, regulations and white papers is pouring out of Quebec. Many of these evidence increasing state intervention in the private sector or tend to change significantly the way Quebeckers live and do business. Moreover, so little time is available to evaluate this material that its long term implications are sometimes not initially understood. In our view, a moratorium on legislation which tends to change the very nature of Quebec society is highly desirable.

We are approaching the Quebec referendum. Whatever the shortcomings of the Canadian federation, Quebec's diverse peoples have enjoyed, in reasonable harmony, a long period of exciting growth. The richness and opportunities of half a continent are there for them to share with their fellow Canadians. Quebeckers properly emphasize their linguistic inheritance, their very special identity and their own talents, achievements and aspirations; however, in our view it would be a tragedy if they limited their future horizons to the frontiers of Quebec.

Ralph Waldo Emerson once wrote "This time, like all times, is a very good one if we but know what to do with it." The decisions we must all take — politicians, citizens and business leaders alike — are more than ever crucial to our common future.

Chairman of the Board

November 2, 1979

Jack Levine President

# Financial and Operating Review

The fiscal year ended July 28, 1979 was an important year of progress for the Company. Despite consumer resistance to continuing inflation, both sales and earnings increased. A number of steps taken during the year, including a major equity financing, contributed significantly to the strength and flexibility of our financial position.

### Sales and Operating Revenue

Consolidated sales and operating revenue of the Company for the fiscal year ended July 28, 1979 increased by more than $165 million to $2,082,710,000, an advance of 8.6% over fiscal 1978. Sales from our retail and manufacturing operations (excluding inter-company sales) amounted to $2,065,123,000, surpassing the $2 billion mark for the first time with an increase of 8.5% over last year's total of $1,903,201,000.

### Net Earnings

Consolidated net earnings increased by 5.7% from $25,730,000 to $27,191,000. Earnings per common and Class "A" share amounted to $3.83 compared to $3.65 in fiscal 1978. Earnings per dollar of sales and operating revenue for the year decreased slightly from 1.34% to 1.3%. Earnings from operations were approximately at the same level as for the previous year; increased financial income and reduced financial expenses, together with a lower effective tax rate, contributed to the improved net earnings.

Higher earnings achieved by real estate operations, Ontario food division and restaurant operations more than offset a decline in earnings from our Quebec food division. Miracle Mart and Cartier Sugar both showed a small increase in earnings.

### Income Taxes

The provision for current and deferred income taxes for the year is $18,616,000, resulting in an effective tax rate on consolidated earnings of 40.15%. This compares with a rate of 41.88% for the previous year and with the statutory corporate tax rate of 48.4%. The tax provision gives effect to the inventory tax credit, the reduced tax rate applicable to our manufacturing and processing operations, the increase in our equity in non-consolidated companies and in non-taxable dividends received, as well as certain other minor adjustments.

### Assets and Liabilities

During the fiscal year, total consolidated assets increased by more than $65 million to $635,972,000. This substantial increase reflects the considerable cash flow from our operations, as well as the creation and issuance of new Second Preferred Shares. The balance sheet shows a $45 million increase in current assets and an increase of $18 million in other assets. The net amount of fixed assets remains virtually unchanged.

Current asset growth was due principally to a $36 million increase in the Company's investment in short-term marketable securities. The value of inventories, which rose by only $3 million, reflects the increase in the number of stores operated and the effect of inflation. These were largely offset by the sale of Cardinal Distributors.

The increase in other assets arises principally from the common shares and notes received as partial consideration for the sale of Cardinal's assets.

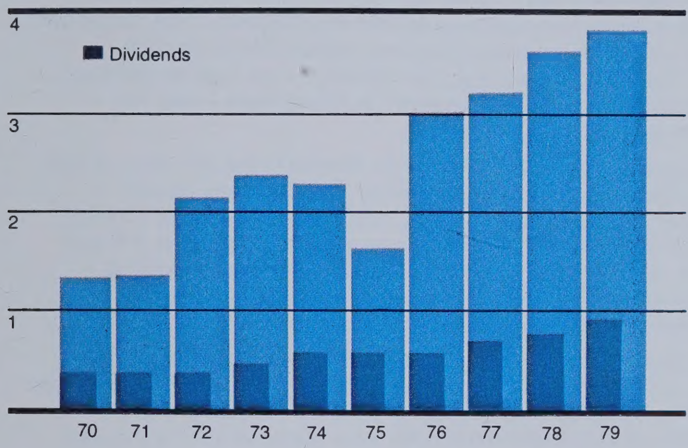
Capital expenditures exceeded $51 million. Our program included the opening of nine food supermarkets, major renovations or expansions to a further seven existing supermarkets, the addition of two Miracle Mart department stores and the renovation of another and the acquisition or opening of 30 restaurant units. After giving effect to $25 million of depreciation and amortization and to dispositions aggregating $25 million, the net increase in consolidated fixed assets amounted to less than $1 million. These dispositions resulted mainly from the restructuring by Ivanhoe of its ownership of Champlain Mall under a joint venture and the sale by Cardinal of its retail fixed assets.

Long term debt was reduced by more than $46 million to an amount of $160,600,000. This reduction involved the repayment of income debentures issued by Cardinal and by Cartier Sugar, the repayment of a bank term loan by Ivanhoe, the elimination of the indebtedness of the Champlain Mall project, the redemption of all outstanding mortgage bonds by Steinberg's Properties Limited, as well as normal sinking fund redemptions of existing bonds and debentures.

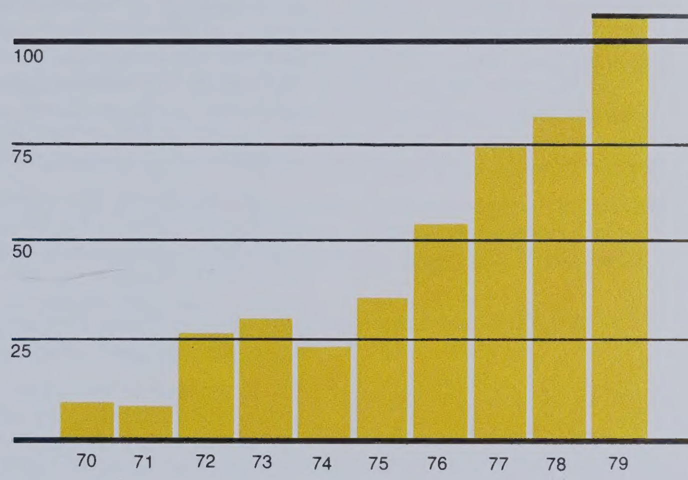
Our current assets of $270,922,000 compare to current liabilities of $165,888,000 resulting in working capital of more than $105 million. Our working capital ratio improved to 1.63 to 1, an increase from last year's ratio of 1.57 to 1.

The overall strong financial position of the Company should facilitate the achievement of our objectives for continued expansion in the future.

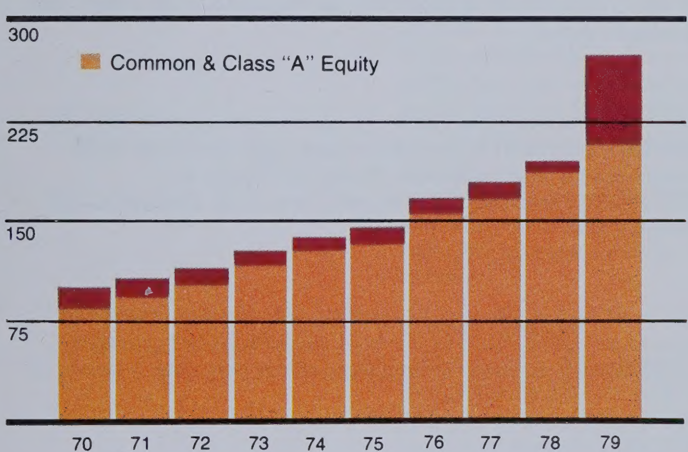
**Net Earnings & Dividends per common & Class "A" share** (dollars)



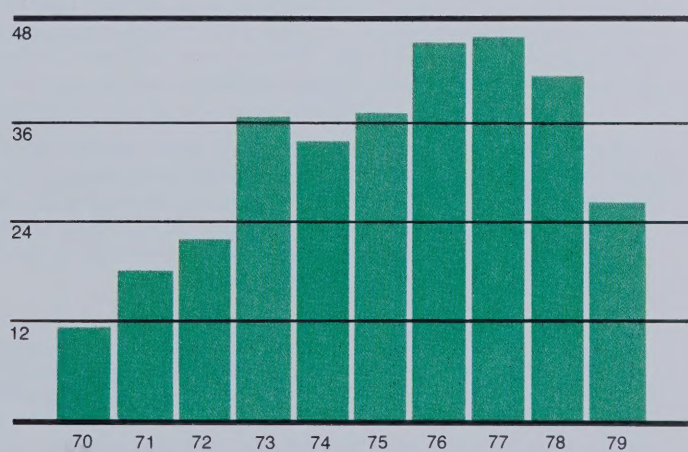

**Working Capital** (millions)



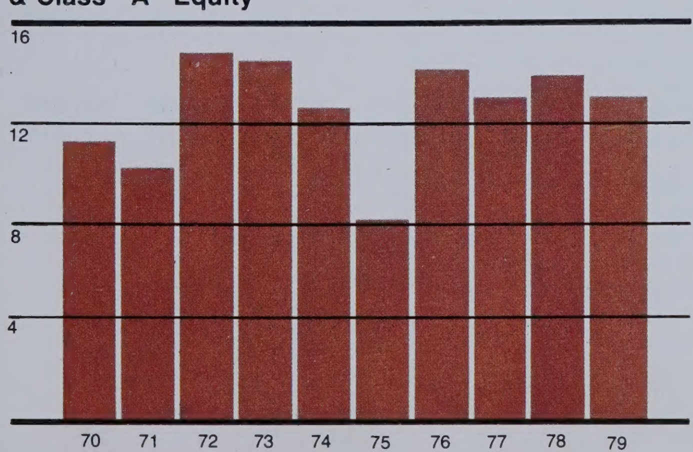

**Book Value of Shareholders' Equity** (millions)



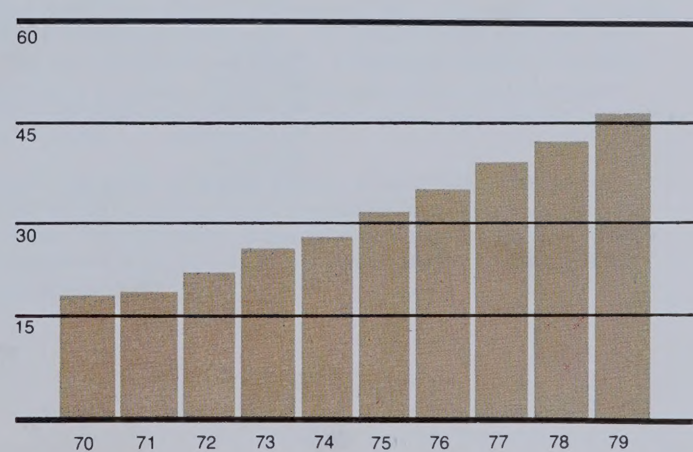

**Capital Expenditures** (millions)
(net of dispositions & depreciation)




**Return on average common & Class "A" Equity** (percentage)




**Net Assets Employed** (millions)



## Share Capital & Shareholders' Equity

As reported as a subsequent event in last year's report, the Company capitalized $25 million of its surplus in order to take advantage of certain taxation provisions which permitted companies to distribute 1971 capital surplus on hand in ways advantageous to their shareholders. This action did not change the capital structure of the Company or involve any cash outflow. No immediate distribution of this surplus is planned. The Company's action has conserved the right to distribute up to a total of $25 million of its capitalized surplus to shareholders in future years under the conditions which existed prior to December 31, 1978.

By Supplementary Letters Patent, 4,000,000 Second Preferred Shares of the par value of $25 each were added to the Company's authorized capital. Subsequently, the Company issued 1,800,000 of such shares with a dividend rate of $1.95 per year. This $45,000,000 issue was well received by the public and the financial community. Concurrently, an additional 800,000 of these shares, having an aggregate par value of $20 million, were privately placed with five financial institutions in Canada. The dividend on this variable rate second series is fixed at 7.2% for five years with provisions for adjustment at five year intervals.

In addition to the above, 72,195 Class "A" shares were issued to employees holding stock options for a total consideration of $1,163,000. We also redeemed 365 Series "A" Preferred Shares and 10,200 Subordinated Preferred Shares. Supplementary Letters Patent cancelling the redeemed shares and a further 50,000 unissued preferred shares were obtained prior to the year end. A further 10,200 Subordinated Shares have been redeemed subsequent to the year end.

The book value of shareholders' equity increased to $282,911,000 from $198,485,000 and at year end amounted to $30.18 per common and Class "A" share outstanding. The rate of return on total equity declined from 12.96% reported last year to 9.6% after taking into account the issue of $65,000,000 of Second Preferred Shares. Return on average Class "A" and common equity showed a small decrease from 13.97% to 13.26%. Retained earnings increased to $179 million, up from $174.2 million at the end of the previous year.

## Dividends

The regular quarterly dividend payable on our common and Class "A" shares was increased to 25 cents per share effective with the March 1979 payment — resulting in aggregate dividends of 86 cents per share during the year. Dividends paid on the Series "A" Preferred Shares and Subordinated Preferred Shares were $5.25 and $2.45 per share respectively. Total dividends paid on all classes of shares amounted to $6,240,000.

## Investment Plan

An investment plan was made available to 27 senior officers of Steinberg Inc. and its subsidiaries. This plan involves a partial guarantee by Multi Restaurants Inc. of bank indebtedness incurred by these employees. This guarantee of $790,000 will be reduced progressively to zero over a period of three to five years.

## Quarterly Performance

The following table sets out the sales and operating revenue, earnings and earnings per share of the Company per quarter for the last two fiscal years.

| | 1979 | | | | 1978 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1st 12 weeks | 2nd 12 weeks | 3rd 12 weeks | last 16 weeks | 1st 12 weeks | 2nd 12 weeks | 3rd 12 weeks | last 16 weeks |
| Sales & Operating Revenue | 448,780 | 515,481 | 470,927 | 647,522 | 410,771 | 469,155 | 430,625 | 606,978 |
| Net Earnings | 2,478 | 8,905 | 5,081 | 10,727 | 3,677 | 6,901 | 3,727 | 11,425 |
| Earnings Per Share | 0.35 | 1.25 | 0.72 | 1.51 | 0.52 | 0.98 | 0.53 | 1.62 |

## Retail Food Operations

Total sales of our retail food operations, including Quebec Division, Ontario Division and our new subsidiary, Valdi Discount Foods, increased by 8.82% to $1,763,399,000, in comparison with $1,620,493,000 reported last year. These sales represent approximately 85% of the total sales and operating revenue of the Steinberg organization. The increase in sales is less than the rate of inflation in food prices during the year and is indicative of changing buying patterns of consumers who, faced with substantially increased costs in their budgets, are shifting to less expensive food items. Nevertheless both Ontario and Quebec Divisions enjoyed a slightly greater share of market.

Pre-tax profit from operations in this area of our business actually declined marginally from the previous year reflecting the results of a two-week illegal strike in our Montreal warehouse and bakery operations in the Fall of 1978, as well as substantial increases in wages and employee benefits.

Average weekly sales per store of our supermarket divisions were more than $156,000, while sales per square foot of selling area exceeded $451.

### Quebec Division

Despite increased sales, pre-tax earnings from operations of Quebec Division declined. The principal causes of this decline were the lost sales and high costs involved in last Fall's illegal strike as well as increasingly higher operating expenses. Significant among these were high energy costs and improved employee salaries, wages and benefits.

Despite intense competition, Quebec Division continues to be the dominant force in the Quebec retail food market with its stores located in virtually all major market areas in the Province, as well as in eastern Ontario. During the year the division opened six new food supermarkets and at year end operated 149 stores. With over 6,000 full time and 5,000 part time employees, Quebec Division is the third largest private employer in the Province; it is one of the largest consumers of hydro electric power. It is a major purchaser of food products and other goods and services and its policy is to deal with local suppliers, manufacturers and farmers wherever possible. Facts such as these underline its importance and contribution to the Quebec economy.

Electronic cash registers have been installed in 47 stores with six stores now operating with front-end scanning. A large increase in the number of these electronic installations and in the use of scanners is planned for 1980. These modern installations, combined with management information systems, will enable our stores to effect better staff scheduling, improve space allocation for products and assure better stock control. This improved efficiency will result in better customer service.

### Ontario Division

Celebrating its 20th anniversary, Ontario Division, which operates under the trade name Miracle Food Mart, is able to report its most successful year. Sales increased by more than 8% and profits returned to a more satisfactory level from the level reported last year. While operating expenses were held below budget, the low gross margins achieved reflect the intense competitive conditions prevailing in its markets.

During the year the division opened three food supermarkets; two were expanded and underwent major renovations. At the end of the year there were 69 stores in operation. Thirty-four of the division's stores have electronic cash registers installed with seven utilizing scanning.

Plans are well under way for the construction of a 125,000 square foot "saw-ready" meat plant and warehouse which will be operational in our next fiscal year. This $25,000,000 plant will have the capability to centralize meat cutting operations and will assure a better distribution of product, reduction of waste and improved standards of quality. Experts in human resources are actively participating in the design and planning stages of this plant. This involvement will help to maximize the operations of this modern facility.

During the coming year the division has plans to open a number of new "super stores" of approximately 60,000 square feet, with 45,000 in selling area. In addition to expanded and specialized food departments, such as an in-store bakery, a delicatessen department, and cheese boutique, these stores will offer our customers a pharmacy, a very large health and beauty area, and an attractive general merchandise department.

### Valdi Inc.

A new subsidiary, Valdi Inc., has opened its first "box stores" in southern Ontario. Operating under the name Valdi Discount Foods, these smaller outlets, which offer a limited assortment of brand name and private label grocery items at prices substantially lower than those of a conventional supermarket, meet a real customer demand. Surroundings are plain, customer service is kept to a minimum and perishable and other high shrink products are not offered — all of which makes it possible to operate at very low margins. Customer acceptance of this new concept has been encouraging.

Start up costs of this new operation have been kept to a minimum and sales are running ahead of initial projections. At year end six stores were in operation. By January 1980, this new division will have twenty such stores. Further expansion into new geographic regions is projected.

## General Merchandise Retailing

As a result of the disposition during the year of the retailing operations of Cardinal Distributors, our current operations in the field of general merchandise retailing are restricted to the Miracle Mart Department Stores.

### Miracle Mart Division

Miracle Mart opened two department stores during the fiscal year, bringing the number in operation to 34, with a total sales area of approximately 2,350,000 square feet. Sales during the fiscal year increased by more than 10% to exceed $200,000,000 for the first time. Earnings increased proportionately.

Early in the fiscal year the division consolidated its warehousing, administrative and buying activities into a new 300,000 square foot office and distribution centre in a suburb of Montreal. This move has increased the efficiency of the warehouse, office and store personnel.

Over the past five years there have been significant changes in the Miracle Mart Division. These include changes in its merchandising policies, a rationalization of operations by the closing of certain unprofitable stores, selective new store openings and major renovations to a number of older stores. As a result of these moves Miracle Mart has increased its market share in its key major markets and has achieved a marked improvement in profitability. However, the overall return on investment is still considered inadequate and further improvement remains a prime objective.

### Cardinal Distributors Limited

Most of the retail assets of this subsidiary were sold during the year to Consumers Distributing Company Limited; the balance of retail operations were closed. At the time of the sale, Cardinal was operating 42 catalogue outlets. For the period of the year during which Cardinal operated, sales exceeded $28,000,000. Despite high shut-down costs a small profit was realized.

The sale price to Consumers was $23,257,000, approximately equal to the net book value of the Company's investment in this subsidiary. In view of Cardinal's negative effect on the Company's profits in recent years, it is expected that this disposition will result in an improvement in overall profitability.

Consumers, through arbitration proceedings, is claiming a reduction in the sale price of approximately $1.5 million for alleged overvaluation of inventory. These proceedings are being contested. Consumers has also alleged breach of certain warranties and threatened further legal proceedings in damages. The Company considers such allegations and threatened claims to be completely without foundation and will contest any such proceedings if they are instituted.

## Manufacturing Operations

Total sales of our food manufacturing and processing subsidiaries for the year amounted to $96,617,000, an increase of 6.4%. Sales to outside customers were $32,755,000 or 34% of this amount, the balance being inter-company sales.

### Steinberg Foods Limited

Sales of Steinberg Foods Limited and its subsidiary, Multimarques Inc., exceeded those of the previous year, but did not meet targeted figures. This was largely due to the strike suffered during the year and to a declining trend in bakery sales at the retail level. Profit results were also seriously affected by the large advertising and promotional budget required for the introduction of the "Maestro" brand frozen pizza as a national branded item to retail grocers.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Despite the less than satisfactory sales figures, labour efficiencies and more effective control of overhead have enabled the division to operate at a break-even level.

Steinberg Foods Limited operates solely as a supplier to our retail food divisions, providing them with private label bakery products, delicatessen items and a number of processed foods such as nuts, tea and coffee.

Multimarques Inc., which has its own sales staff, markets its full range of bakery products and certain other items directly to major food chains and independents operating in Quebec. Multimarques' "Pain Quotidien" line has been expanded by the introduction of a number of specialty breads, as well as buns and hot dog rolls. Customer acceptance of this unique line of products continues to increase. It is already produced under license from Multimarques by one of Canada's largest national bakers. Additional arrangements for the production of these items by other major bakeries in both Canada and the United States are under study.

### Cartier Sugar Ltd.

Sales, measured by both dollars and tonnage, exceeded those of the previous year and budgeted figures. Profits, while up somewhat, were affected by higher raw sugar costs and competitive sales conditions which necessitated higher trade discounts.

Work is presently under way on a major renovation and modernization program of Cartier's plant and processing facilities. When completed later this fiscal year, capacity will be increased by approximately 20% with improved purity and quality of product.

### Phénix Flour Limited

Sales of our milling subsidiary increased by 6.6% over those of 1978 despite a reduction in tonnage sold. The reduction was, in large measure, attributable to strikes affecting two major customers, as well as an overall decrease in the domestic use of flour.

Although prices of feed grains remained high, earnings for the year were reduced as a result of higher wheat prices, intensified price competition among the milling companies and increased transportation costs, the latter due to a strike of grainhandlers in the Port of Montreal which lasted more than five months and was settled after the year end.

## Restaurant Operations

### Intercity Food Services Inc., and subsidiaries

The food service or restaurant business, a form of diversification which began in 1967, has consistently achieved the fastest rate of growth among all of our businesses. In March our investment in this field was significantly expanded with the acquisition of Salisbury House of Canada Ltd., a well respected Winnipeg based chain founded more than 48 years ago. Salisbury House operates 24 restaurants serviced by a central commissary. Its strong management and operating traditions fit in well with our organization.

Our restaurant operations are presently carried on in four wholly owned subsidiaries: Intercity Food Services Inc., Multi Restaurants Inc., Pik-Nik Inc. and Salisbury House of Canada Ltd. This corporate organization is being rationalized principally along geographic lines in order to improve efficiency. Considerable attention is also being paid to the strengthening and development of management. At year end we were operating a total of 194 restaurants, snack bars, brasseries and other outlets under the names Le Quick, Le Comptoir, Pik-Nik, Deli Counter, Salisbury House and others in urban areas from eastern Quebec to Saskatchewan.

Sales showed an increase during 1979 of more than $7 million to reach a total of $32,454,000. Higher food costs put pressure on operating margins but other expenses were well controlled, resulting in a satisfactory level of net income.

We expect improved results from this area of operations and are planning further expansion and acquisition.

### Pharmaprix Limited

A small loss from this operation was recorded in Steinberg's books for the fiscal year 1979.

Subsequent to the end of the fiscal year, an agreement in principle was reached for the sale of the Company's interest in Pharmaprix to Koffler Stores Limited, which already owned 50% of the outstanding shares. The sale price, to be paid in cash, will enable the Company to recover most of its investment in Pharmaprix and will release the Company from its substantial bank and other guarantees.


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## Employee Relations

The Steinberg organization provides full and part time employment to more than 25,000 Canadians. Most of these employees are unionized. During the fiscal year our employees received more than $310,000,000 in salaries, wages and employee benefits. Second only to cost of merchandise, these payments increased by 10.7% over the previous year and in magnitude approximate 15% of our total sales and operating revenues.

In the Fall of 1978 we were involved in an illegal two-week strike of our Montreal warehouse, distribution and bakery employees. This work stoppage, which arose over the interpretation of a clause concerning disability benefits under the group insurance policy, had serious repercussions on our financial results for the year.

Subsequently, one year wage settlements under reopener provisions of existing collective agreements were successfully negotiated for most employees in the Province of Quebec. These settlements included substantial increases in wages, pension benefits and group insurance.

The Company provides substantial health and welfare benefits and pension coverage to virtually all full-time employees. These plans are generally on a non-contributory basis. Most unionized employees are covered by pension plans which are under joint union and management administration. Effective January 1, 1979, the Company made further major improvements to existing pension coverage for non-union and management employees. Benefits now account for 30% of our total payroll costs.

The current level of wages, benefits and working conditions compares more than favourably with the majority of our industry. By providing appropriate compensation packages for work involving a high level of job satisfaction (including adequate opportunity for career planning and advancement) we hope to retain and attract the high caliber of personnel essential to our future strength and growth.

# Consolidated statements of earnings and retained earnings

Steinberg Inc. and Subsidiary Companies
For the year ended July 28, 1979
(thousands of dollars)

## Earnings

| | 1979 $ | 1978 $ |
|---|---|---|
| **Sales and Operating Revenue** | **2,082,710** | 1,917,529 |
| **Expenses** | | |
| Cost of sales and expenses except those shown below | **1,658,615** | 1,530,280 |
| Wages and employee benefits | **308,466** | 278,265 |
| Directors' and officers' remuneration | **2,456** | 2,376 |
| Rentals and lease purchase payments | **28,642** | 24,155 |
| Depreciation and amortization | **25,463** | 23,161 |
| Interest and amortization of discount on long-term debt | **15,483** | 18,124 |
| Other interest | **3,322** | 699 |
| Investment income, including interest earned and gain on redemption of long-term debt | **(5,912)** | (3,886) |
| Income from affiliated companies and partnerships | **(191)** | (862) |
| | **2,036,344** | 1,872,312 |
| **Earnings before Income Taxes and Minority Interest** | **46,366** | 45,217 |
| **Income Taxes** | | |
| Current | **14,386** | 16,656 |
| Deferred | **4,230** | 2,281 |
| | **18,616** | 18,937 |
| **Earnings before Minority Interest** | **27,750** | 26,280 |
| **Minority Interest** | **559** | 550 |
| **Net Earnings for the Year** | **27,191** | 25,730 |
| **Represented by:** | | |
| Retail and manufacturing companies | **20,749** | 21,485 |
| Real estate companies | **6,442** | 4,245 |
| | **27,191** | 25,730 |
| **Net Earnings per Class "A" and Common Share** (note 5 (g)) | **$3.83** | $3.65 |

## Retained Earnings

| | 1979 $ | 1978 $ |
|---|---|---|
| **Balance — Beginning of Year** | **174,226** | 153,729 |
| Net earnings for the year | **27,191** | 25,730 |
| | **201,417** | 179,459 |
| Dividends — | | |
| 5¼% preferred shares Series "A" | **128** | 131 |
| 2½% subordinated preferred shares | **50** | 75 |
| Class "A" and common shares | **6,062** | 5,027 |
| | **6,240** | 5,233 |
| Transfer to capital stock (note 5 (b)) | **14,504** | |
| Expenses relating to the issue of second preferred shares (net of applicable income tax credit of $95,000) | **1,664** | |
| | **22,408** | 5,233 |
| **Balance — End of Year** | **179,009** | 174,226 |

# Consolidated balance sheet

Steinberg Inc. and Subsidiary Companies
As at July 28, 1979
(thousands of dollars)

| Assets | 1979 $ | 1978 $ |
|---|---|---|
| **Current Assets** | | |
| Cash | **8,066** | 6,110 |
| Short-term marketable securities | **74,246** | 37,931 |
| Accounts receivable | **14,268** | 12,652 |
| Income taxes recoverable | **1,487** | |
| Inventories | **159,885** | 156,863 |
| Prepaid expenses | **12,970** | 11,500 |
| | **270,922** | 225,056 |
| **Other Assets** (note 2) | **31,338** | 13,209 |
| **Fixed Assets** (note 3) | | |
| Real estate operations | **163,235** | 177,514 |
| Retail and manufacturing operations | **150,226** | 135,202 |
| | **313,461** | 312,716 |
| **Intangible Assets** | | |
| Unamortized discount on long-term debt | **1,939** | 2,164 |
| Excess of cost of shares in subsidiary companies over net book value at date of acquisition | **18,312** | 17,310 |
| | **20,251** | 19,474 |
| | **635,972** | 570,455 |

Signed on Behalf of the Board
Mel Dobrin, Director
Jack Levine, Director

## Liabilities

| | 1979 $ | 1978 $ |
|---|---|---|
| **Current Liabilities** | | |
| Bank advances and notes payable | **30,610** | 10,111 |
| Accounts payable and accrued liabilities | **135,232** | 130,572 |
| Dividends payable | **32** | 33 |
| Income taxes | | 2,323 |
| Current portion of long-term debt (note 4) | **14** | 49 |
| | **165,888** | 143,088 |
| **Long-Term Debt and Other Obligations** (note 4) | | |
| Real estate operations | **100,992** | 134,757 |
| Retail and manufacturing operations | **59,608** | 72,172 |
| | **160,600** | 206,929 |
| **Deferred Income Taxes** | **23,264** | 19,003 |
| **Minority Interest** | **3,309** | 2,950 |
| | **353,061** | 371,970 |

## Shareholders' Equity

| | 1979 $ | 1978 $ |
|---|---|---|
| **Capital Stock** (note 5) | **103,643** | 13,517 |
| **Contributed Surplus** (note 6) | **259** | 10,742 |
| **Retained Earnings** | **179,009** | 174,226 |
| | **282,911** | 198,485 |
| | **635,972** | 570,455 |

# Consolidated statement of changes in financial position

Steinberg Inc. and Subsidiary Companies
For the year ended July 28, 1979
(thousands of dollars)

| | 1979 $ | 1978 $ |
|---|---|---|
| **Source of Working Capital** | | |
| Net earnings for the year | **27,191** | 25,730 |
| Items not affecting working capital | | |
| Depreciation and amortization | **25,463** | 23,354 |
| Deferred income taxes | **4,230** | 2,281 |
| Minority interest | **559** | 550 |
| Provided from operations | **57,443** | 51,915 |
| Additional debt and capital stock issued | | |
| Mortgages and other obligations — net | **2,139** | 1,737 |
| Net proceeds from issue of $10^1/_4$-$10^1/_2$% Series 1978 first mortgage bonds | | 29,400 |
| Net proceeds from issue of second preferred shares | **63,336** | |
| Issue of Class "A" shares to employees | **1,163** | 317 |
| | **124,081** | 83,369 |
| **Use of Working Capital** | | |
| Net additions to assets | | |
| Real estate property | **(10,230)** | 11,826 |
| Retail and manufacturing — fixed assets | **36,438** | 30,096 |
| Investments and other items | **18,875** | 3,063 |
| | **45,083** | 44,985 |
| Reduction of long-term debt | **48,468** | 23,640 |
| Reduction of minority interest | **200** | 124 |
| Retirement of preferred shares | **1,024** | 2,030 |
| Dividends | **6,240** | 5,233 |
| | **101,015** | 76,012 |
| **Increase in Working Capital** | **23,066** | 7,357 |
| **Working Capital — Beginning of Year** | **81,968** | 74,611 |
| **Working Capital — End of Year** | **105,034** | 81,968 |

# Notes to consolidated financial statements

Steinberg Inc. and Subsidiary Companies
For the year ended July 28, 1979

## 1. Accounting Policies

*Principles of consolidation*

The consolidated financial statements include the accounts of all companies in which the parent company holds an interest in excess of 50%. The investments in affiliated companies and partnerships not controlled by the company are accounted for on the equity basis.

*Inventories*

Inventories are valued at the lower of cost or net realizable value using principally the retail method for retail stores and average cost for the remaining inventories.

*Fixed assets*

*Real estate operations*

Income producing properties are carried at cost (including development expenses). Land held for future development is carried at cost plus direct carrying charges such as interest and realty taxes on land up to the appraised value of the land and on construction in progress until the official opening date of the project. Capitalization in respect of all projects is subject to a reasonable maximum period of time.

*Retail and manufacturing operations*

Land, buildings and equipment are carried at cost. Leasehold improvements are carried at cost less amortization. Store opening expenses are charged to operations as incurred.

*Depreciation and amortization*

(a) Depreciation of fixed assets is computed on the straight-line method at the following rates which are sufficient to amortize the costs over their estimated useful lives:

| | |
|---|---|
| Buildings | 40 years |
| Parking areas | 25 years |
| Store equipment | 10 years |
| Automotive equipment | 6-12 years |
| Data processing equipment | 5 years |

Amortization of leasehold improvements is computed on the straight-line method over the term of the lease.

(b) Long-term debt discount is amortized over the term of the issue.

(c) In 1979 the company acquired all the outstanding shares of Salisbury House of Canada Ltd. for cash of $1,500,000. As a result of this transaction an amount of $1,060,000 has been added to the excess of cost of shares in subsidiary companies over net book value at date of acquisition.

(d) The excess of cost of shares in subsidiary companies over fair value of assets acquired for acquisitions subsequent to April 1, 1974 is charged to income on the straight-line method over forty years. No amortization is charged on the excess of cost of shares in subsidiary companies over net book value for previous acquisitions. Unamortized amounts are charged to income in the event of diminution in value.

*Short-term marketable securities*

Short-term marketable securities are carried at cost which approximates quoted value.

## 2. Other Assets

These comprise the following:

| | 1979 | 1978 |
|---|---|---|
| | (thousands of dollars) | |
| Interest in affiliated companies and partnerships | | |
| Shares and interests — at equity | **5,154** | 4,252 |
| Advances | **1,572** | 1,578 |
| | **6,726** | 5,830 |
| Advances and other recoverable amounts | | |
| Balances of sales of land | **1,400** | 1,839 |
| Real estate transactions | **3,437** | 3,353 |
| | **4,837** | 5,192 |
| Funds on deposit and other items | **2,225** | 2,187 |
| Investment in Consumers Distributing Company Limited | | |
| 530,000 Common shares at cost (quoted market value $6,559,000) | **9,010** | |
| Non-interest bearing note payable in equal monthly instalments to February 1, 1989 | **1,606** | |
| Interest bearing note at 1% above prime, payable in semi-annual instalments on August 1 and February 1 of each year and maturing on February 1, 1986 | **7,571** | |
| | **18,187** | |
| Less: Current portion due within one year | **637** | |
| | **17,550** | |
| | **31,338** | 13,209 |

## 3. Fixed Assets

| | 1979 | 1978 |
|---|---|---|
| | (thousands of dollars) | |
| Real estate operations | | |
| Land held for future development | **27,032** | 24,431 |
| Income producing properties | **183,895** | 197,550 |
| | **210,927** | 221,981 |
| Accumulated depreciation | **47,692** | 44,467 |
| | **163,235** | 177,514 |
| Retail and manufacturing operations | | |
| Land and buildings | **5,351** | 4,686 |
| Equipment | **220,618** | 201,161 |
| | **225,969** | 205,847 |
| Accumulated depreciation | **110,315** | 98,841 |
| | **115,654** | 107,006 |
| Leasehold improvements | **34,572** | 28,196 |
| | **150,226** | 135,202 |

## 4. Long-Term Debt and Other Obligations

| | 1979 | 1978 |
|---|---|---|
| | (thousands of dollars) | |
| Real estate operations | | |
| (Refer to page 26 and note 4 to the consolidated financial statements of Ivanhoe Inc.) | **112,855** | 136,601 |
| Elimination of notes and advances due to Steinberg Inc. | **11,863** | 1,844 |
| | **100,992** | 134,757 |

Due to the nature of the real estate operations, the current portion due within one year has not been included under current liabilities. This portion will be financed in the same period from rental income under lease agreements which has not been included in accounts receivable.

| | 1979 | 1978 |
|---|---|---|
| Retail and manufacturing operations | | |
| Steinberg Inc. sinking fund debentures | | |
| $5^3/_4$% Series A, due 1984 | **7,503** | 7,806 |
| $6^5/_8$% Series B, due 1986 | **8,261** | 8,766 |
| $8^5/_8$% Series C, due 1992 | **18,550** | 19,049 |
| $10^1/_2$% Series D, due 1994 (or 1984 at option of holder) | **25,000** | 25,000 |
| Bank loan of a subsidiary with interest at prime | | 1,600 |
| Secured income debentures of subsidiaries | | 10,000 |
| Various mortgage loans of a subsidiary | **308** | |
| | **59,622** | 72,221 |
| Less: Current portion due within one year | **14** | 49 |
| | **59,608** | 72,172 |

At July 28,1979 the amounts of long-term debt payable, including purchase and sinking fund requirements and payments at maturity by Steinberg Inc. and its subsidiaries for the ensuing five fiscal years, are as follows:

| | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|
| | | | (thousands of dollars) | | |
| Real estate operations | 4,938 | 3,484 | 7,649 | 3,391 | 8,503 |
| Retail and manufacturing operations | 1,259 | 1,710 | 1,711 | 1,928 | 1,700 |
| | 6,197 | 5,194 | 9,360 | 5,319 | 10,203 |

The excess of bonds cancelled or purchased for redemption to date, over the cumulative sinking and purchase fund requirements at July 28, 1979 amounting to $3,054,000 in the case of real estate operations and $1,686,000 in the case of retail and manufacturing operations may be applied against these requirements.

## 5. Capital Stock

(a) This is comprised as follows:

| | 1979 | 1978 |
|---|---|---|
| | (thousands of dollars) | |
| Authorized | | |
| 24,360 cumulative redeemable preferred shares of the par value of $100 each | | |
| 4,000,000 second preferred shares of the par value of $25 each | | |
| 20,400 $2^1/_2$% non-cumulative subordinated preferred shares redeemable at their par value of $98 each | | |
| 4,500,000 Class "A" shares without par value — non-voting | | |
| 3,500,000 common shares without par value | | |
| Issued, outstanding and fully paid | | |
| 24,360 $5^1/_4$% preferred shares, Series "A" (1978 — 24,725) | **2,436** | 2,473 |
| 1,800,000 $1.95 cumulative redeemable second preferred shares series one | **45,000** | |
| 800,000 variable rate cumulative redeemable second preferred shares series two, 7.20% to 1984 | **20,000** | |
| 20,400 $2^1/_2$% subordinated preferred shares (1978 — 30,600) | **1,999** | 2,999 |
| 4,072,688 Class "A" shares (1978 — 4,000,493) | **22,032** | 6,545 |
| 3,000,000 common shares | **12,176** | 1,500 |
| | **103,643** | 13,517 |

(b) During the year the company capitalized $25,000,000 of its surplus (contributed surplus $10,495,969 and retained earnings $14,504,031) by the transfer to its authorized and issued capital stock of $14,323,794 in the case of the Class "A" shares and $10,676,206 in the case of the common shares. This was confirmed by Supplementary Letters Patent dated October 17, 1978.

(c) Supplementary Letters Patent were granted May 15, 1979 creating 4,000,000 second preferred shares of the par value of $25 per share, issuable in series. During the year 1,800,000 $1.95 cumulative redeemable second preferred shares series one and 800,000 variable rate cumulative redeemable second preferred shares series two were issued for cash of $65,000,000.

(d) Supplementary Letters Patent were granted July 20, 1979 reducing the authorized capital of the company by cancelling 365 Series "A" preferred shares, 10,200 subordinated preferred shares and 50,000 unissued cumulative redeemable preferred shares of the par value of $100 each.

(e) During the year 365 Series "A" preferred shares were redeemed.

(f) The $2^1/_2$% subordinated preferred shares provide that the company may redeem such shares to a maximum of $1,000,000 and may purchase by tender additional shares to a maximum of $1,000,000 in each year. During the year, the company redeemed 10,200 shares at par for a consideration of $999,600. Subsequent to July 28, 1979, the company redeemed a further 10,200 shares at par for a consideration of $999,600.

(g) As at July 28, 1979 the company had reserved 154,712 Class "A" shares as follows:

| | Number of shares | Price per share |
|---|---|---|
| Options to senior employees — | | |
| Exercisable to November 30, 1981 | 56,700* | $16.00 |
| Reserved for future allocation of options at a price to be determined by the Board of Directors but not less than 90% of the market value at the time of allocation | 98,012 | |
| | 154,712 | |

*The exercise of all the outstanding options would dilute earnings per Class "A" and common share by 2 cents (1978 — 3 cents).

(h) During the year 72,195 (1978 — 26,450) Class "A" shares were issued to employees for cash of $1,162,500 (1978 — $317,400).

## 6. Contributed Surplus

After giving effect to the transfer to capital stock of $10,495,969 referred to in note 5 (b), the contributed surplus as at July 28, 1979 consisted of gains on redemption of $5^1/_4$% preferred shares Series "A" amounting to $245,674 with respect to prior years and $13,240 in 1979.

## 7. Retirement Plans

During the year substantial amendments were made to the existing retirement plans including the addition of a large number of employees for the first time. Substantially all employees of the company and its subsidiaries are now covered by pension plans.

As at January 1, 1979 there were obligations for past service benefits amounting to $11,535,000 according to actuarial estimates. These obligations will be satisfied as follows:

$4,535,000 — by annual payments of $469,000 to 1990 and in declining amounts for the next three years.

$7,000,000 — by annual payments to 1994, the amounts of which are based on a formula which multiplies hours worked by Quebec based food store employees by a contractual rate.

During the year ended July 28, 1979, $710,000 in respect of past service obligations was charged to operations.

### 8. Long-Term Leases

The aggregate minimum rentals, exclusive of additional amounts based on percentage of sales, taxes, insurance and other occupancy charges under long-term leases in effect at July 28, 1979 for each of the periods shown are as follows:

| | Payable to Ivanhoe Inc. and subsidiaries | Payable to others |
|---|---|---|
| | (thousands of dollars) | |
| Within five years | 50,821 | 110,898 |
| Within the next five years | 46,085 | 99,792 |
| Within the next five years | 34,281 | 80,851 |
| Within the next five years | 17,831 | 55,930 |
| Within the remainder of the term | 10,580 | 47,630 |
| | 159,598 | 395,101 |

### 9. Sale of Assets

On February 5, 1979, Cardinal Distributors Limited ("Cardinal"), a wholly-owned subsidiary, sold substantially all of its retailing assets to Consumers Distributing Company Limited ("Consumers") for an amount of $23,257,000. The proceeds consisted of $5,000,000 in cash, $9,247,000 in long-term promissory notes of Consumers, and $9,010,000 represented by 530,000 common shares of Consumers. No material gain or loss arose from this transaction.

### 10. Contingent Liabilities

(a) Steinberg Inc. and its subsidiaries have guaranteed bank loans to third parties in the amount of $7,398,000, of which $790,000 is in respect of certain indebtedness of 27 senior officers, three of whom are directors. A subsidiary has pledged $1,000,000 in securities against these bank advances to officers.

(b) Steinberg Inc. has guaranteed jointly and severally with Koffler Stores Limited and Pharmaprix Limited leases of pharmacy proprietors affiliated with Pharmaprix Limited in the amount of $9,507,202 payable principally over a twenty-year period.

(c) Steinberg Inc. has guaranteed leases assigned to Consumers on the sale of the retail operations of Cardinal in the amount of $3,156,132 payable over a period ranging from four to twenty years.

(d) Consumers has advised Cardinal of its intention to contest by way of arbitration certain inventory reserves used in determining the sale price in connection with the transaction referred to in note 9 and it has also alleged breach of certain warranties in respect thereof.

### 11. Classes of Business

Classes of business that differ substantially from each other and which respectively contribute 10% or more of the total gross revenue are:

| | **1979** | 1978 |
|---|---|---|
| Food retailing | **85%** | 85% |
| General retailing | **11%** | 12% |

### 12. Subsequent Events

On October 4, 1979 the company concluded an agreement in principle for the sale of its 50% interest in Pharmaprix Limited to Koffler Stores Limited. No material gain or loss is expected to arise from this transaction.

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Steinberg Inc. as at July 28, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at July 28, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Montreal, Quebec
October 19, 1979

Chartered Accountants

# Ivanhoe Inc.
# & Subsidiaries

Consolidated revenues and net earnings of Ivanhoe Inc. and its subsidiary companies again increased substantially. As a result of the completion of the partnership arrangements for Champlain Mall in Brossard, Quebec, the accounting treatment accorded this property has changed. A line by line comparison with last year's financial results is therefore not appropriate.

Earnings before income taxes increased from $7.3 million to $11.5 million while net earnings for the year improved more than 51% to $6.4 million. Gains on the disposal of vacant land amounted to $755,000 and, as a result of the Champlain Mall partnership, a "gain arising on real estate development" of $3,198,000 has been realized.

Cash flow from operations equaled $12.2 million, up substantially from $9.5 million achieved in 1978. Fixed assets are carried in the books of the company at $167.4 million. Long-term debt decreased by $24 million to $112 million reflecting, amongst other items, the Champlain Mall partnership and the redemption of all outstanding mortgage bonds of Steinberg's Properties Limited. Total assets exceeded $185 million at year end.

In order that older properties will continue to generate acceptable profits, Ivanhoe regularly reviews its facilities with a view to expansion, or modernization and improvement of tenant mix. The expansion of Place Pierre Boucher, and a major renovation of West Island Mall resulted from such review. An expansion of the latter centre is planned along with the renovation and recycling of major tenant space in at least one other existing shopping centre.

Shopping centres are presently under construction in Gloucester, a suburb of Ottawa, and in Delson, a suburb of Montreal, aggregating in excess of 200,000 square feet of gross leasable area. With their completion Ivanhoe will manage 34 wholly or partially owned shopping centres containing in excess of 6,100,000 square feet of gross leasable area leased to more than 1,100 tenants. Current plans call for the construction of two additional shopping centres as well as the construction of several other retail and plant facilities for Steinberg.

As indicated in last year's annual report, efforts are underway to carry Ivanhoe's expansion beyond its existing market and traditional connection with its parent company. In line with this planned diversification, Ivanhoe has recently acquired significant land holdings in the southwestern United States. The development of these lands, which is anticipated over the next few years, will involve local resident partners who have demonstrated experience in these markets.

At year end all of the outstanding mortgage bonds of Steinberg's Properties Limited were redeemed and that company was subsequently merged into Ivanhoe Inc. The redemption will permit the refinancing of the properties securing these bonds in amounts reflecting their current values.

# Consolidated statements of earnings and retained earnings

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 28, 1979
(thousands of dollars)

## Earnings

| | 1979 $ | 1978 $ |
|---|---|---|
| **Revenue** | | |
| Rentals — Steinberg Inc. and subsidiaries | **12,287** | 12,898 |
| — Other | **13,634** | 14,074 |
| Gain on sale of land | **755** | 254 |
| Gain arising from real estate developments | **3,198** | |
| | **29,874** | 27,226 |
| **Expenses** | | |
| Operating and administrative | **1,954** | 2,063 |
| Wages and employee benefits | **3,107** | 2,905 |
| Depreciation | **4,049** | 4,379 |
| | **9,110** | 9,347 |
| **Earnings from Operations** | **20,764** | 17,879 |
| **Financial (Income) and Other Expenses** | | |
| Interest and amortization of discount on long term debt | | |
| Steinberg Inc. | **860** | 195 |
| Other | **10,167** | 11,966 |
| Other interest | **84** | 21 |
| Interest earned and gain on redemption of long term debt | **(1,382)** | (732) |
| Income from affiliated companies and partnerships | **(420)** | (825) |
| | **9,309** | 10,625 |
| **Earnings before Income Taxes and Minority Interest** | **11,455** | 7,254 |
| **Income Taxes** | | |
| Current | **3,313** | 2,070 |
| Deferred | **1,534** | 802 |
| | **4,847** | 2,872 |
| **Earnings before Minority Interest** | **6,608** | 4,382 |
| **Minority Interest** | **166** | 137 |
| **Net Earnings for the Year** | **6,442** | 4,245 |

## Retained Earnings

| | 1979 $ | 1978 $ |
|---|---|---|
| **Balance — Beginning of Year** | **22,972** | 19,493 |
| Net earnings for the year | **6,442** | 4,245 |
| | **29,414** | 23,738 |
| Dividends on 5% preferred shares | **766** | 766 |
| **Balance — End of Year** | **28,648** | 22,972 |

# Consolidated balance sheet

Ivanhoe Inc. and Subsidiary Companies
As at July 28, 1979
(thousands of dollars)

| | 1979 $ | 1978 $ |
|---|---|---|
| **Assets** | | |
| **Property Interests** | | |
| Income producing properties | **184,966** | 198,400 |
| Accumulated depreciation | **47,253** | 44,029 |
| | **137,713** | 154,371 |
| Land held for future development | **29,661** | 27,059 |
| | **167,374** | 181,430 |
| **Other Assets** | | |
| Accounts receivable (note 2) | **8,478** | 7,988 |
| Prepaid Expenses | **4,174** | 3,534 |
| Investments (note 3) | **4,394** | 3,690 |
| Unamortized discount on long-term debt | **1,218** | 1,367 |
| | **185,638** | 198,009 |
| **Liabilities** | | |
| **Long Term Debt and Other Obligations** (note 4) | **112,855** | 136,601 |
| **Other Liabilities** | | |
| Bank advances | **842** | 299 |
| Accounts payable and accrued liabilities (note 5) | **7,856** | 4,432 |
| | **8,698** | 4,731 |
| **Deferred Income Taxes** | **11,718** | 10,184 |
| **Minority Interest** (including $668,600 of preferred shares of a subsidiary held by Steinberg Inc.) | **1,891** | 1,693 |
| | **135,162** | 153,209 |
| **Shareholders' Equity** | | |
| **Capital Stock** (note 6) | **21,828** | 21,828 |
| **Retained Earnings** | **28,648** | 22,972 |
| | **50,476** | 44,800 |
| | **185,638** | 198,009 |

Signed on Behalf of the Board
H. Arnold Steinberg, Director
Mel Dobrin, Director

# Consolidated statement of cash flow and changes in financial position

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 28, 1979
(thousands of dollars)

| | 1979 $ | 1978 $ |
|---|---|---|
| **Net Earnings for the Year** | **6,442** | 4,245 |
| Items not requiring cash | | |
| Depreciation | **4,049** | 4,379 |
| Deferred income taxes | **1,534** | 802 |
| Other | **149** | 110 |
| **Cash Flow from Operations** | **12,174** | 9,536 |
| **Financing** | | |
| Additional long-term debt | **1,842** | 31,737 |
| Repayment of long-term debt | **(35,364)** | (22,562) |
| Additions to advances from Steinberg Inc. | **10,020** | 1,844 |
| Issuance of capital stock | | 6,408 |
| Redemption of shares of a subsidiary held by Steinberg Inc. | | (6,905) |
| Issuance of shares of a subsidiary to Steinberg Inc. | **88** | |
| | **(23,414)** | 10,522 |
| **Funds obtained from (used for) other assets and liabilities** | **2,055** | (7,250) |
| **Payment of Dividends to Minority Shareholders by a Subsidiary Company** | **(56)** | |
| **Payment of Dividends on Preferred Shares** | **(766)** | (766) |
| **Funds invested in (or obtained from) Property Interests — Net** | **(10,007)** | 12,042 |

# Notes to consolidated financial statements

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 28, 1979

**1. Accounting Policies**

*Principles of consolidation*

The consolidated financial statements include the accounts of all companies in which the parent company holds an interest in excess of 50%. The investments in affiliated companies and partnerships not controlled by the company are accounted for on the equity basis.

*Property interests*

Income producing properties are carried at cost (including development expenses). Land held for future development is carried at cost plus direct carrying charges such as interest and realty taxes on land up to the appraised value of the land and on construction in progress until the official opening date of the project. Capitalization in respect of all projects is subject to a reasonable maximum period of time.

Depreciation is recorded on income producing properties on the straight-line method at the following rates which are sufficient to amortize the cost over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 40 years |
| Parking areas | 25 years |
| Equipment | 10 years |

**2. Accounts Receivable**

| | 1979 | 1978 |
|---|---|---|
| | (thousands of dollars) | |
| Due from tenants | **1,513** | 1,726 |
| Amounts recoverable from land transactions, funds on deposit and other items | **6,965** | 5,802 |
| Income taxes recoverable | | 460 |
| | **8,478** | 7,988 |

**3. Investments**

| | 1979 | 1978 |
|---|---|---|
| | (thousands of dollars) | |
| Interest in affiliated companies and partnerships | | |
| Shares and interests at equity | **3,979** | 2,849 |
| Advances | **415** | 841 |
| | **4,394** | 3,690 |

## 4. Long Term Debt and Other Obligations

| | 1979 | 1978 |
|---|---|---|
| | (thousands of dollars) | |
| First mortgage sinking fund bonds | | |
| Ivanhoe Inc. | | |
| $7^1/_2$% Series A, due 1991 | **3,450** | 3,850 |
| 7% Series B, due 1991 (repayable in U.S. currency $1,655,000, 1978 — $1,746,000) | **1,806** | 1,913 |
| $10^1/_4$%-$10^1/_2$% Series 1978 due 1998 (or 1988 at option of holder) | **29,323** | 30,000 |
| Steinberg's Properties Limited | | |
| $4^1/_2$% Series A, due 1980 | | 444 |
| 6% Series B, C and D, due 1982-1984 | | 2,954 |
| Steinberg's Shopping Centres Limited | | |
| 7% Series A, due 1985 | **2,877** | 3,339 |
| $8^1/_2$% Series B, due 1994 | **3,272** | 3,761 |
| Steinberg Realty Limited | | |
| $8^1/_2$% Series A, due 1991 | **13,671** | 13,752 |
| $8^7/_8$% Series B, due 1993 | **20,785** | 20,989 |
| | **75,184** | 81,002 |
| Mortgage loans and balances payable on land purchases | | |
| 7%-10% balances payable on land purchases | **1,427** | 1,639 |
| $5^1/_2$%-$7^1/_2$% mortgage loans, repayable in varying monthly instalments to 1985 | **2,365** | 2,823 |
| $11^1/_2$% mortgage loans repayable in varying monthly instalments to 1992 | **2,060** | 2,092 |
| $10^3/_8$% mortgage loan repayable in varying monthly instalments to 1993 | **495** | 500 |
| $11^3/_4$% mortgage loans repayable in varying monthly instalments to 1995 | **8,062** | 8,143 |
| $10^1/_2$% mortgage loan repayable in monthly instalments to 1996 | **848** | 866 |
| $12^3/_4$% mortgage loan repayable in full on June 1, 1980 | **1,317** | |
| | **16,574** | 16,063 |
| Other obligations | | |
| Non-interest bearing advance | **34** | 34 |
| 6% notes due on demand | | 780 |
| Unsecured term loan due May 19, 1982 with interest at $^1/_2$ of 1% to 1% above prime | **4,200** | 4,200 |
| 8% demand note due to Steinberg Inc. | **1,863** | 1,844 |
| Secured revolving term loan due June 15, 1984 with interest at $^3/_4$% to $1^1/_4$% above prime | **5,000** | 15,000 |
| Secured term loan due September 1, 1980 with interest at $1^1/_4$% above prime | | 17,678 |
| Advances due to Steinberg Inc. bearing interest at a rate approximating the cost of borrowing to Steinberg Inc. | **10,000** | |
| | **21,097** | 39,536 |
| | **112,855** | 136,601 |

At July 28, 1979 the amounts of long-term debt payable, including purchase and sinking fund requirements and payments at maturity by Ivanhoe Inc. and its subsidiaries for the ensuing five fiscal years, are as follows:

| 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|
| | | (thousands of dollars) | | |
| 4,938 | 3,484 | 7,649 | 3,391 | 8,503 |

The excess of bonds cancelled or purchased for redemption to date, over the cumulative sinking and purchase fund requirements at July 28, 1979 amounting to $3,054,000 may be applied against these requirements.

### 5. Accounts Payable and Accrued Liabilities

| | 1979 | 1978 |
|---|---|---|
| | (thousands of dollars) | |
| Deferred revenue | **1,752** | |
| Income taxes | **521** | |
| Other | **5,583** | 4,432 |
| | **7,856** | 4,432 |

### 6. Capital Stock

| | 1979 | 1978 |
|---|---|---|
| | (thousands of dollars) | |
| Authorized | | |
| 155,000 5% non-cumulative preferred shares redeemable at their par value of $100 each | | |
| 70,000 8% cumulative preferred shares redeemable at their par value of $100 each | | |
| 200,000 Class "A" non-voting shares of the par value of $1 each | | |
| 50,000 common shares of the par value of $1 each | | |
| Issued and fully paid | | |
| 153,200 5% preferred shares | **15,320** | 15,320 |
| 64,088 8% preferred shares | **6,408** | 6,408 |
| 90,000 Class "A" shares | **90** | 90 |
| 10,000 common shares | **10** | 10 |
| | **21,828** | 21,828 |

### 7. Contingent Liabilities

*Guarantees*

Ivanhoe Inc. has guaranteed bank loans amounting to $5,608,125 of companies in which it has ownership interests.

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Ivanhoe Inc. as at July 28, 1979 and the consolidated statements of earnings, retained earnings and cash flow and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at July 28, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

Montreal, Quebec
October 19, 1979

# Ten year statistical review

| Steinberg Inc. and Subsidiary Companies (thousands of dollars except where noted) | 1979 $ | 1978 $ |
|---|---|---|
| Sales and operating revenue | **2,082,710** | 1,917,529 |
| Salaries, wages and employee benefits | **310,922** | 280,641 |
| Rentals and lease purchase payments | **28,642** | 24,155 |
| Depreciation and amortization | **25,463** | 23,161 |
| Interest on long-term debt | **15,483** | 18,124 |
| Income taxes | **18,616** | 18,937 |
| Net earnings | **27,191** | 25,730 |
| Inventories | **159,885** | 156,863 |
| Working capital | **105,034** | 81,968 |
| Investments and other assets | **31,338** | 13,209 |
| Fixed assets — net | **313,461** | 312,716 |
| Total assets | **635,972** | 570,455 |
| Long-term debt | **160,600** | 206,929 |
| Deferred income taxes | **23,264** | 19,003 |
| Minority interest | **3,309** | 2,950 |
| Preferred stock | **69,435** | 5,472 |
| Common and Class "A" shareholders' equity | **213,476** | 193,013 |
| Capital employed | **470,084** | 427,367 |
| Capital expenditures — net | **26,208** | 41,922 |
| Cash flow from operations | **57,443** | 51,915 |
| Dividends paid to shareholders | **6,240** | 5,233 |
| Return on average capital employed | **7.98%** | 8.65% |
| Return on average common and Class "A" equity | **13.26%** | 13.97% |
| Net earnings as % of sales and operating revenue | **1.31%** | 1.34% |
| Long-term debt: equity ratio | **36:64** | 51:49 |
| Long-term interest coverage ratio | **3.99** | 3.49 |
| Working capital ratio | **1.63** | 1.57 |
| Inventory turn-over ratio | **10.43** | 10.41 |
| Earnings per common and Class "A" share | **$3.83** | $3.65 |
| Dividend paid per common and Class "A" share | **$0.86** | $0.72 |
| Book Value per common and Class "A" share | **$30.18** | $27.57 |
| Supermarkets — Number of units | **218** | 209 |
| — Gross leasable area (thousands of sq. ft.) | **7,213** | 6,382 |
| — Sales area (thousands of sq. ft.) | **3,883** | 3,593 |
| Department stores | | |
| — Number of units | **34** | 32 |
| — Gross leasable area (thousands of sq. ft.) | **3,322** | 3,105 |
| — Sales area (thousands of sq. ft.) | **2,350** | 2,178 |
| Restaurants — Number of units | **194** | 164 |

*53 weeks

7.W

$8.21
7|57443

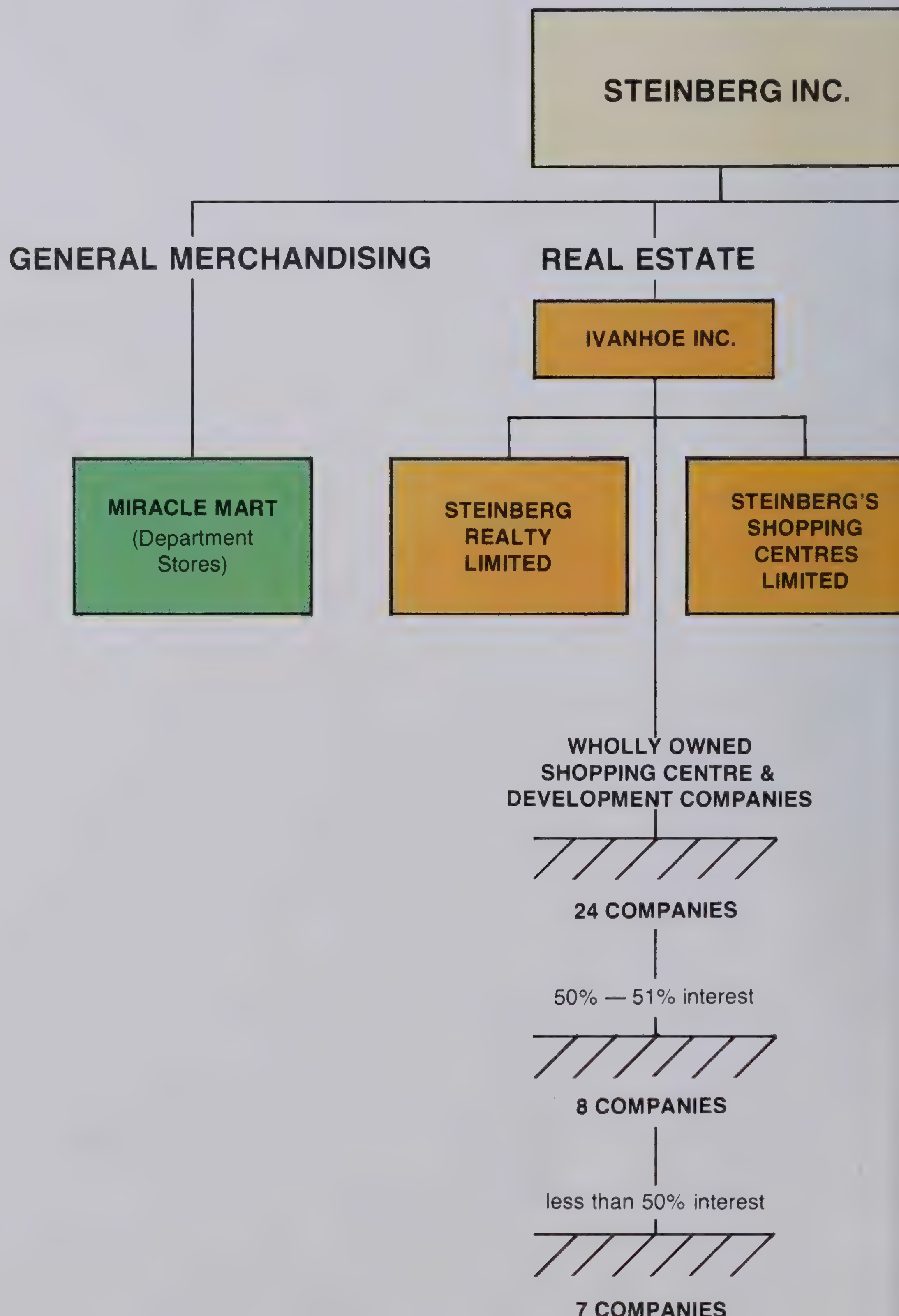
$7.41
7|51915

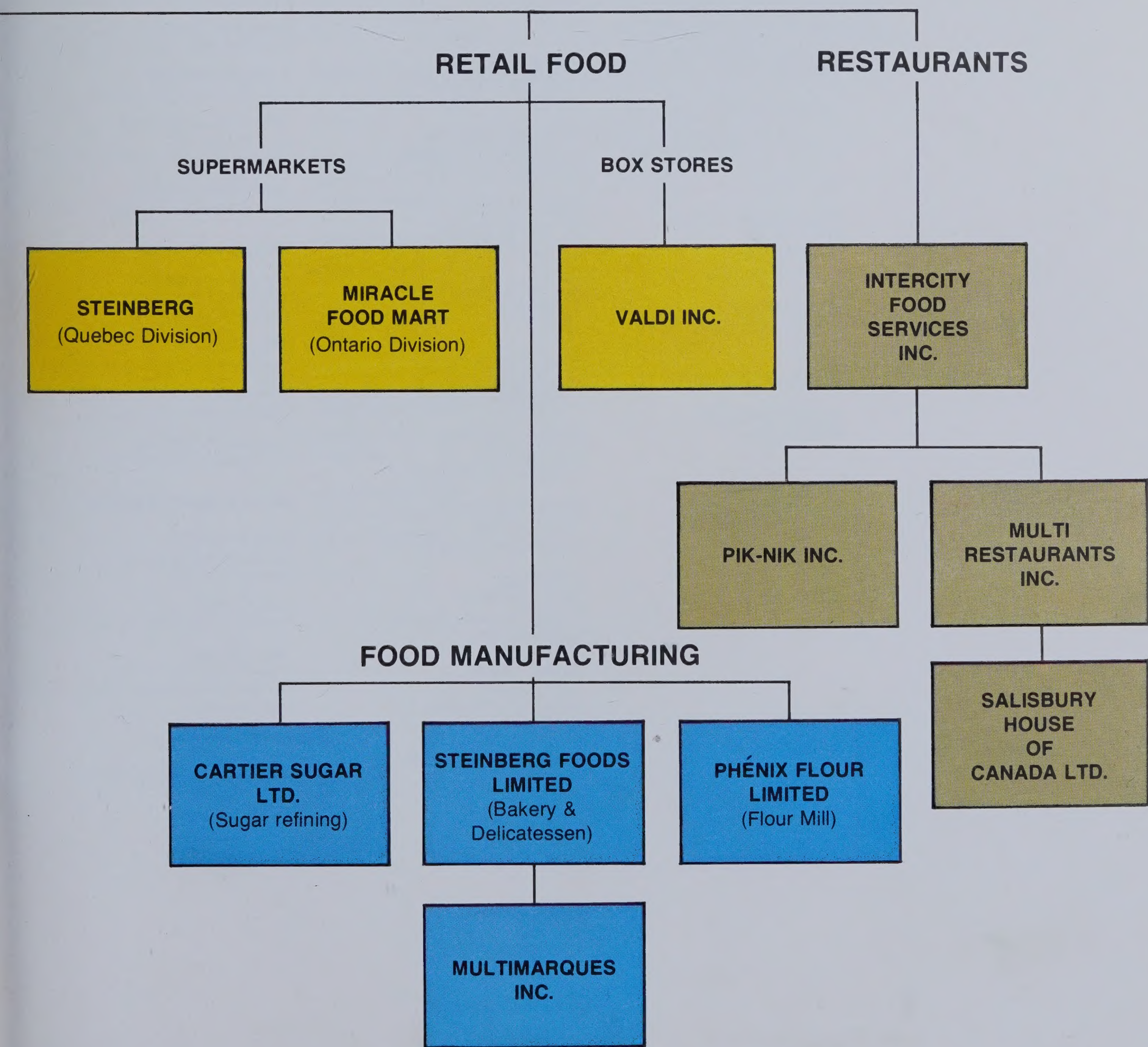
$6.58
7|46090

| 1977 | 1976* | 1975 | 1974 | 1973 | 1972 | 1971* | 1970 |
|---|---|---|---|---|---|---|---|
| $ | $ | $ | $ | $ | $ | $ | $ |
| 1,767,687 | 1,605,642 | 1,430,195 | 1,197,319 | 1,012,209 | 881,575 | 792,821 | 685,713 |
| 261,521 | 222,878 | 190,449 | 158,399 | 134,465 | 114,650 | 102,575 | 88,206 |
| 21,261 | 19,678 | 17,107 | 14,881 | 11,386 | 11,426 | 11,350 | 9,799 |
| 20,513 | 18,729 | 15,803 | 14,473 | 12,903 | 11,511 | 10,674 | 10,168 |
| 15,641 | 13,809 | 9,774 | 8,966 | 7,233 | 5,890 | 5,432 | 5,716 |
| 19,445 | 18,769 | 15,023 | 15,834 | 14,136 | 10,619 | 9,000 | 9,447 |
| 21,895 | 21,266 | 11,901 | 16,229 | 16,729 | 14,972 | 9,459 | 9,317 |
| 146,118 | 122,432 | 112,165 | 113,283 | 82,391 | 68,440 | 59,011 | 55,723 |
| 74,611 | 54,628 | 35,438 | 23,440 | 30,725 | 26,203 | 8,979 | 9,151 |
| 12,690 | 16,021 | 21,920 | 14,335 | 12,876 | 8,097 | 7,939 | 8,424 |
| 293,955 | 267,412 | 239,527 | 218,740 | 198,904 | 175,478 | 164,533 | 156,779 |
| 522,163 | 471,917 | 418,115 | 389,003 | 338,292 | 287,848 | 266,685 | 252,950 |
| 199,432 | 175,514 | 152,928 | 117,924 | 117,742 | 99,228 | 82,943 | 80,909 |
| 16,765 | 13,602 | 11,275 | 12,291 | 9,952 | 8,575 | 8,004 | 8,596 |
| 2,524 | 2,647 | 2,460 | 2,311 | 1,857 | 1,593 | 2,420 | 2,788 |
| 7,624 | 8,634 | 9,689 | 10,765 | 11,909 | 12,962 | 13,083 | 14,282 |
| 172,077 | 155,010 | 138,041 | 130,427 | 118,422 | 104,449 | 91,405 | 83,801 |
| 398,422 | 355,407 | 314,393 | 273,718 | 259,882 | 226,807 | 197,855 | 190,376 |
| 47,056 | 46,614 | 36,590 | 34,309 | 36,329 | 22,456 | 18,428 | 11,631 |
| 46,090 | 43,007 | 27,275 | 33,810 | 31,492 | 27,334 | 20,361 | 20,891 |
| 4,685 | 4,468 | 4,489 | 4,509 | 3,481 | 2,620 | 2,608 | 2,666 |
| 8.06% | 8.65% | 5.78% | 8.05% | 8.56% | 8.59% | 6.42% | 6.55% |
| 13.22% | 14.31% | 8.60% | 12.76% | 14.67% | 15.09% | 10.63% | 11.29% |
| 1.24% | 1.32% | 0.83% | 1.36% | 1.65% | 1.70% | 1.19% | 1.36% |
| 53:47 | 52:48 | 51:49 | 46:54 | 47:53 | 46:54 | 44:56 | 45:55 |
| 3.66 | 3.94 | 3.75 | 4.64 | 5.31 | 5.38 | 4.43 | 4.31 |
| 1.60 | 1.47 | 1.34 | 1.20 | 1.39 | 1.43 | 1.13 | 1.15 |
| 10.45 | 10.87 | 11.25 | 12.22 | 12.46 | 11.91 | 10.77 | 10.52 |
| $3.10 | $3.01 | $1.66 | $2.29 | $2.37 | $2.16 | $1.37 | $1.34 |
| $0.66 | $0.60 | $0.60 | $0.60 | $0.45 | $0.36 | $0.36 | $0.36 |
| $24.67 | $22.24 | $19.83 | $18.77 | $17.10 | $15.20 | $13.41 | $12.36 |
| 206 | 197 | 196 | 191 | 187 | 185 | 179 | 176 |
| 6,193 | 5,840 | 5,732 | 5,638 | 5,401 | 5,287 | 5,029 | 4,906 |
| 3,488 | 3,273 | 3,185 | 3,019 | 2,815 | 2,692 | 2,544 | 2,455 |
| 31 | 28 | 28 | 32 | 31 | 28 | 26 | 23 |
| 3,011 | 2,760 | 2,760 | 3,178 | 3,199 | 2,977 | 2,822 | 2,603 |
| 2,112 | 2,046 | 2,046 | 2,294 | 2,173 | 2,001 | 2,138 | 1,980 |
| 153 | 123 | 119 | 119 | 96 | 70 | 52 | 41 |

**STEINBERG** Inc.

# Organization Chart




RETAIL FOOD
RESTAURANTS
SUPERMARKETS
BOX STORES
STEINBERG (Quebec Division)
MIRACLE FOOD MART (Ontario Division)
VALDI INC.
INTERCITY FOOD SERVICES INC.
PIK-NIK INC.
MULTI RESTAURANTS INC.
SALISBURY HOUSE OF CANADA LTD.
FOOD MANUFACTURING
CARTIER SUGAR LTD. (Sugar refining)
STEINBERG FOODS LIMITED (Bakery & Delicatessen)
PHÉNIX FLOUR LIMITED (Flour Mill)
MULTIMARQUES INC.

## Directors

Donald G. Campbell
Chairman of the Board
& Chief Executive Officer
Maclean Hunter Limited

André Charron, Q.C.
President
Lévesque, Beaubien Inc.

Raymond Cyr
Executive Vice-President,
Administration, Bell Canada

Melvyn A. Dobrin
Chairman

Mitzi S. Dobrin

James N. Doyle

Jack Levine

Hon. Lazarus Phillips,
O.B.E. Q.C.
Senior Partner
Phillips & Vineberg

Gérard Plourde
Chairman of the Board
UAP Inc.

H. Arnold Steinberg

Nathan Steinberg
Vice-Chairman

## Officers

### Head Office

Melvyn A. Dobrin
Chairman of the Board,
Chief Executive Officer

Nathan Steinberg
Vice-Chairman of the Board,
Senior Vice-President

Jack Levine
President

James N. Doyle
Executive Vice-President,
Legal & Corporate Affairs

H. Arnold Steinberg
Executive Vice-President,
Finance & Development

Henri Tremblay
Group Vice-President,
Human Resources

Stanley F. English
Vice-President & General
Counsel

Harold G. Geraghty
Vice-President,
Real Estate — Ontario

William Howieson
Vice-President,
Treasurer & Comptroller

Morris Ladenheim
Vice-President,
Private Label Development

John Nagy
Vice-President &
General Manager, Architecture
& Construction

Sidney Pasoff
Vice-President,
Management Systems &
Control

Diane Marcelin Laurin
Secretary

### Quebec Division

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Group Vice-President &
General Manager

Rosaire Beauregard
Vice-President, Unit Operations

Marvin Biltis
Vice-President, Marketing

Guy Dulude
Vice-President, Unit Operations

Rodrigue Gagnon
Vice-President, Human Resources

François Jolicoeur
Vice-President, Distribution

Jean-Claude Lelièvre
Vice-President &
General Manager, Québec-Nord

Jean-Roch Vachon
Vice-President, Unit Operations

### Ontario Division

Norman Auslander
Group Vice-President &
General Manager

Albert Alon
Vice-President, Human Resources

Earle Coe
Vice-President, Distribution

Douglas R. Stewart
Vice-President, Marketing

### Miracle Mart Division

Mitzi S. Dobrin
Group Vice-President &
General Manager

Soly Cohen
Vice-President, Store Operations

Sam Halpern
Vice-President &
General Merchandise Manager —
Hard Goods

Brahm Steinberg
Vice-President &
General Merchandise Manager —
Soft Goods

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## Principal Subsidiaries

### Cartier Sugar Ltd.

John A. Lang
President

### Intercity Food Services Inc.

Lewis Steinberg
President

Edy Lackman
Vice-President &
Director of Marketing

### Ivanhoe Inc.

H. Arnold Steinberg
President

Ralph H. Ordower
Vice-President &
General Manager

### Phénix Flour Limited

John A. Lang
President

Guy Tremblay
Vice-President &
General Manager

### Steinberg Foods Limited

Jack Levine
President

Joseph Beerman
Vice-President &
General Manager

### Transfer Agent

Montreal Trust Company
Halifax, Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

### Registrar

The Royal Trust Company
Halifax, Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

### Stock Exchange Listings

Class "A", $5\frac{1}{4}$% Preferred, and
$1.95 Second Preferred Shares
Montreal Stock Exchange
Toronto Stock Exchange

### Auditors

Coopers & Lybrand
Montreal

### Head Office

Alexis Nihon Plaza
1500 Atwater Avenue
Montreal, Canada
H3Z 1Y3

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